

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6211

BILL NUMBER: HB 1346

NOTE PREPARED: Apr 1, 2005

BILL AMENDED: Mar 31, 2005

SUBJECT: Deferred Compensation Plans.

FIRST AUTHOR: Rep. Buell

FIRST SPONSOR: Sen. Harrison

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Local Deferred Compensation Plans:* This bill allows a political subdivision to offer to its employees both the state employees' deferred compensation plan and a deferred compensation plan that is adopted by the political subdivision and uses one or more private vendors.

Excess Leave Conversion: The bill requires the board of trustees of the Public Employees' Retirement Fund (PERF) to establish a retirement medical benefits account within the fund, under Section 401(h) or another applicable section of the Internal Revenue Code, for the purpose of converting unused excess accrued leave to a monetary contribution for state employees to fund on a pretax basis benefits for post-retirement sickness, accident, hospitalization, and medical expenses of the state employees, their spouses, and their dependents. The bill requires that state employees be able to convert unused accrued excess leave to either the state deferred compensation plan (plan) or the retirement medical benefits account. This bill also requires that the Deferred Compensation Committee adopt a pilot program that allows the employees of at least one branch of state government to convert unused accrued excess leave to a monetary contribution to the plan not later than December 31, 2005. The bill also requires the State Auditor to administer the pilot program.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: (Amended) Upon passage; July 1, 2005.

Explanation of State Expenditures: (Revised) *Excess Leave Conversion:* The bill requires the PERF Board to establish a retirement medical benefits account within the PERF Fund for the purpose of converting unused excess accrued leave to a monetary contribution for state employees. The PERF Board is to adopt rules

establishing the type and amount of leave that may be converted to a monetary contribution, the conversion formula for valuing any leave that is converted, the manner of employee selection of leave conversion, and the vesting schedule for any leave that is converted. Although there would be some additional administrative expenditures associated with implementation of the retirement medical benefits account, the account is merely an expansion of the potential uses for which unused employee leave may be converted.

The bill also adds a provision requiring the implementation of a pilot program by December 31, 2005. The pilot program is to be administered by the State Auditor under rules adopted by the Department of Personnel. The pilot program is to allow the employees of at least one branch of state government to begin converting unused excess accrued leave to a monetary contribution to the employee's deferred compensation plan. The legislative branch and the judicial branch each represent less than 1% of the total number of state employees.

Existing statute already provides for the conversion of unused accrued leave to the employee's deferred compensation plan, and thus most of the cost associated with leave conversion is attributable to prior legislation and not this bill.

Explanation of State Revenues: *Local Deferred Compensation Plans:* If the proposal results in more local employees electing to defer their compensation or if the individual contribution limits are expanded because of the ability to contribute to additional and different types of plans, additional state income tax revenue that would have been paid on their compensation could be deferred to future years.

Explanation of Local Expenditures: *Local Deferred Compensation Plans:* The bill should have no impact on local expenditures. Payroll deduction is already used by local entities with third-party administration which is paid by employee earnings.

Explanation of Local Revenues: *Local Deferred Compensation Plans:* If the proposal results in more local employees electing to defer their compensation or if the individual contribution limits are expanded because of the ability to contribute to additional and different types of plans, additional local income tax revenue that would have been paid on their compensation could be deferred to future years. Any impact would likely be small.

State Agencies Affected: State Auditor; Department of Personnel; PERF; All other agencies.

Local Agencies Affected: Political subdivisions.

Information Sources: Jeffery Heinzmann, Deputy Auditor of Policy and Legal Counsel, Auditor of State's Office, 232-3300.

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